

## **ESPN Thematic Report on In-work poverty - Denmark**

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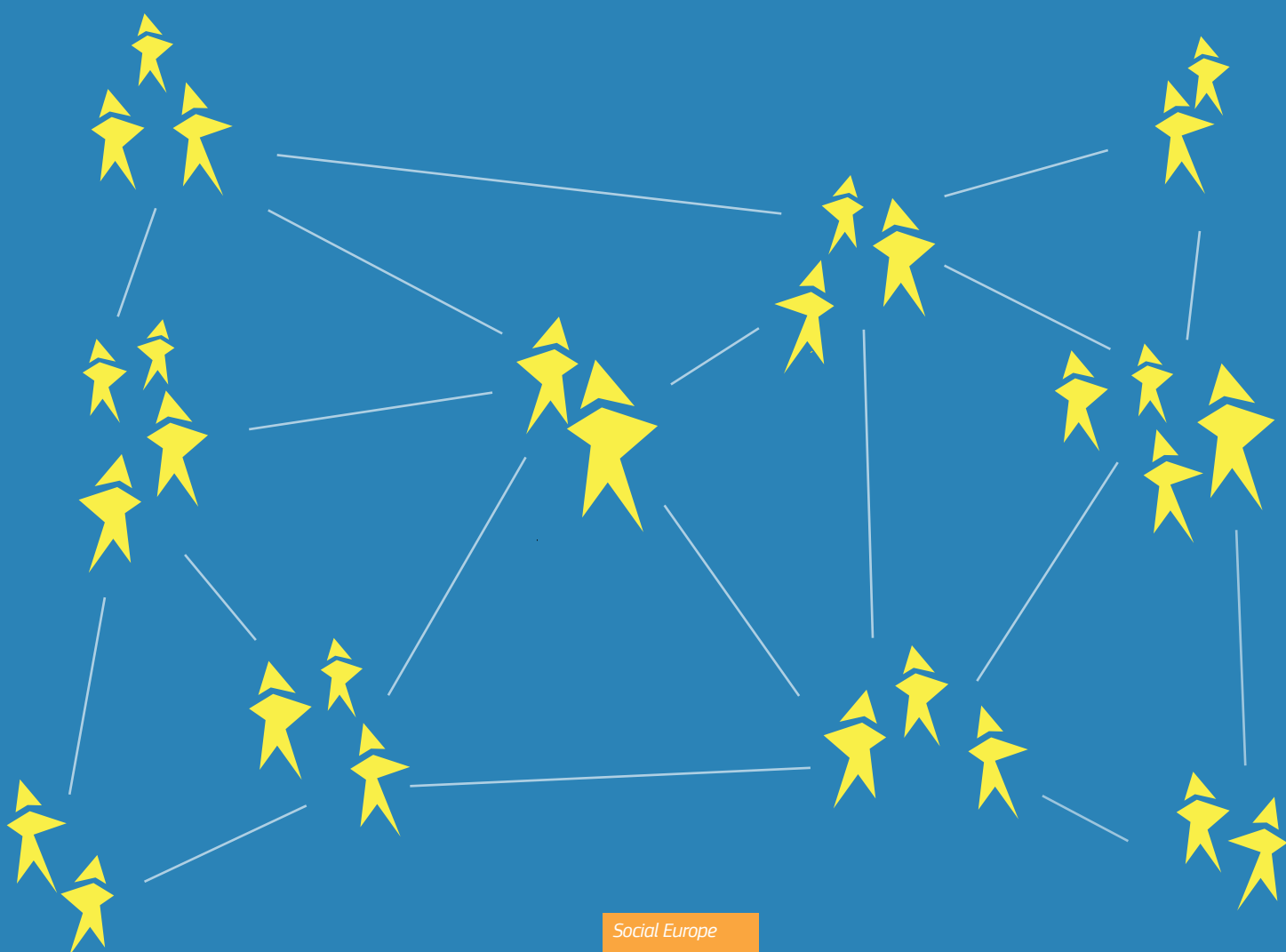
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EUROPEAN SOCIAL POLICY NETWORK (ESPN)

# In-work poverty in Denmark

Jon Kvist



Social Europe

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**European Social Policy Network (ESPN)**

**ESPN Thematic Report on  
In-work poverty**

**Denmark**

**2019**

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## Summary

In-work poverty<sup>1</sup> (IWP) in Denmark is low (5.3% in 2017) and stable (up 0.1 percentage points (pp) since 2012) by international standards. In comparison, the IWP rate was 9.4% in the EU-28 in 2017, up 0.5 pp from 2012. In the public debate, IWP is not perceived as a major problem in Denmark.

However, this report shows great differences in the prevalence of IWP across socio-economic groups and types of labour market attachment. In 2017, IWP was heavily concentrated among youth (19.1%), households with little work intensity (31.9%) and foreign workers (17.2% for EU-28 nationals and 19.5% for third-country nationals).

Similarly, the development of IWP has been dramatic in some categories. From 2012 to 2017, the share of IWP increased in particular among persons in households with low work intensity (up 15.6 pp to 31.9% in 2017), EU-28 nationals (9.3 pp to 20.2%), part-time workers (7.2 pp to 13.2%), the less educated (2.7 pp to 11.6%) and persons on temporary contracts (1.7 pp to 6.3%). Persons in standard employment relationships, by contrast, have seen an improvement in terms of a smaller share at risk of in-work poverty (down 1.1 pp to 2.5%).

We are thus seeing the seeds of polarisation, as in-work poverty in these ways is increasingly concentrated among people at the margins of the labour market because of lack of education, few working hours, short contracts or place of birth, and less so among people on standard wage and working conditions.

Denmark does not have a minimum income wage stipulated in legislation. Instead there are branch-specific minimum wages determined through collective agreements. These are generally at a high level. For example, the monthly minimum wage is €2,560.40 in the industrial sector – higher than any of the statutory minimum wages found in other EU countries, and an important factor behind the low IWP rates.

There are almost no official policies directly addressing IWP. Two tax credits are the main exceptions. The employment allowance and a job allowance aim to make work pay for low-income groups.

Compared to the EU-28, far fewer Danish families with dependent children are at risk of in-work poverty. In Denmark, families with children are no more at risk of IWP than other households (which is not the case in the EU-28). In particular, the combination of available, affordable full-time childcare, free education, universal long-term care, and universal, free public healthcare with de facto minimum wages set at levels above the relative poverty line enables even solo parents to participate full time in the labour market.

Indeed, the greatest lesson to be learned from Denmark is probably that it is possible to integrate families with children in the labour market in positions that are not at risk of in-work poverty.

Polarisation is the main IWP challenge in Denmark. The adverse economic situation following the economic crisis worsened the IWP situation for migrant workers, the self-employed and persons in non-standard, part-time and temporary jobs, but not that of people in standard employment.

The report recommends adopting policies that promote full-time employment on standard conditions to prevent a further polarisation. It also calls for better regulation of employers hiring EU-28 workers at below minimum income wages.

The report recommends that Eurostat enable dynamic studies of IWP over time to see if there are certain groups that are caught in IWP, or if it is used as a stepping stone into or out of the labour market. In a Danish context it is, especially, pertinent to examine whether

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<sup>1</sup> For ease of reading, we will refer to the notion 'at risk of in-work poverty', and to the indicator that measures it, using the generic term of 'in-work poverty' (IWP).

the large group of youth in IWP is a product of the phenomenon of more youth staying longer in education, rather than a portent of a polarisation of the labour market.



## 1 Analysis of the country's population at risk of in-work poverty

In-work poverty (IWP) is comparatively **low and stable in Denmark**. With an in-work at-risk-of-poverty rate of 5.3%, Denmark has the fifth-smallest share of the EU countries and almost half the EU average of 9.6% in 2017 (Eurostat, 2018a). The total rate of IWP remained relatively stable from 2012 to 2017, with a 0.1 pp or 1.9% increase over the period.

However, as shown below, there are **great differences in the prevalence of IWP** among different groups according to their socio-economic and household status, nationality, job intensity and labour market status. Similarly, there has been a **marked increase in IWP over the period for low work-intensity and part-time workers, the less educated, EU-28 nationals and people on temporary contracts**, as well as in the level of material and social deprivation among the self-employed.

The Danish IWP **challenge concerns marginal attachment to the labour market** rather than the level of wages.

The socio-economic differences in the prevalence of IWP concern gender, age and education. **For every three men in IWP there are only two women**. In 2017, the IWP rate was 6.4% for men and 4.2% for women, both 0.1 pp up from the level in 2012 (Eurostat, 2018a). However, the gender division varies for subgroups. For example, among those aged 18-24, the share in IWP is higher for women (20.4%) than for men (18.1%) (Eurostat, 2018a).

IWP is heavily **concentrated among young people**, also in comparison with the EU-28. In 2017, the IWP rate was 19.1% for persons aged 18-24, compared with 12.5% for the EU-28. However, it can be questioned if the relatively high IWP for youth is a big problem: the rate declines dramatically between the young group and the next age group, indicating that IWP is not a permanent problem for a lot of people. The Danish IWP rate is 5.0% for persons aged 25-54 years and 3.3% for persons aged 55-64 years (Eurostat, 2018a). By contrast, the corresponding IWP rates for the EU-28 are 9.6% and 8.8%.

The Danish challenge with IWP is thus not least a question of low-paid youth, although this may be changing: since 2012, the level of IWP has decreased among youth by 19.7% and has increased among those aged 25-54 and 55-64 by, respectively, 16.3% and 13.8%.

IWP is also concentrated among the **less educated**. In 2017, the IWP rate was 11.6% for persons with less than lower secondary education (corresponding to ISCED levels 0-2), 4.5% for persons with upper secondary and post-secondary education (levels 3 and 4) and 3.6% for persons with tertiary education (levels 5-8) (Eurostat, 2018c). From 2012 to 2017, the IWP rate increased by 30.3% for the less educated, but remained stable for the other two groups. Lower education is thus increasingly associated with a lower poverty risk.

**Households with two or more adults are less prone to IWP**. In 2017, the IWP rate for households without children was 11.5% for single persons and 3.2% for households with two or more adults (Eurostat, 2018c). From 2012 to 2017, the IWP for single persons rose by 0.9 pp (or 8.5%), whereas it was stable for households with two or more adults.

There are **no large differences in the IWP rates between families with and without children**. Families with children and with two or more adults are slightly more likely to suffer from IWP (3.5%) than are such households without children (3.2%) (Eurostat, 2018c). The opposite is true for single-person households: in 2017, the IWP rate for single persons was 11.1% if they had dependent children and 11.5% if they did not. The situation in 2017 was not much different from that in 2012.

The **IWP for households with dependent children is much lower in Denmark than in the EU-28**. In 2017, the EU-28 IWP rates for families with children were 21.9% for single parents and 10.4% for households with two or more adults, compared to, respectively, 11.1% and 3.5% in Denmark (Eurostat, 2018d). From 2012 to 2017, the IWP

rate for households with dependent children remained the same – at 4.4% – while the EU-20 average increased by 0.4 pp, to 11.1%.

The IWP rate decreases according to the degree of work intensity. In 2017, the IWP rate was 31.9% for households with low work intensity (defined as work amounting to 20-44% of the possible work supply of the household in the year prior to the survey), 12.5% for households with medium work intensity (45-54%), 8.6% for households with high work intensity (55-84%) and 3.4% for households with very high work intensity (85-100%) (Eurostat, 2018e). **Having low work intensity is increasingly resulting in IWP.** The IWP rate for persons in households with low work intensity rose from 16.3% in 2012 to 31.9% in 2017, an increase of 15.6 pp or 95.7%. Over the same period, the rate fell by 1.7 pp or 16.5% for households with high work intensity, to 8.6% in 2017.

In Denmark, the IWP rate is **lower if there are children in the household**, independent of work intensity – **just the opposite to the EU average**. In 2017, the IWP rates for households with low work intensity in Denmark were 24.7% for households with children and 37.8% for households without (Eurostat, 2018e). Similarly, the IWP rates for high work-intensity households were 4.7% if they had dependent children and 11.7% if they did not. Thus the IWP rate for Danish low work-intensity households without children is markedly higher than the EU average of 28.2%. But the same rate for households with children is markedly lower than the EU average of 46.5%.<sup>2</sup>

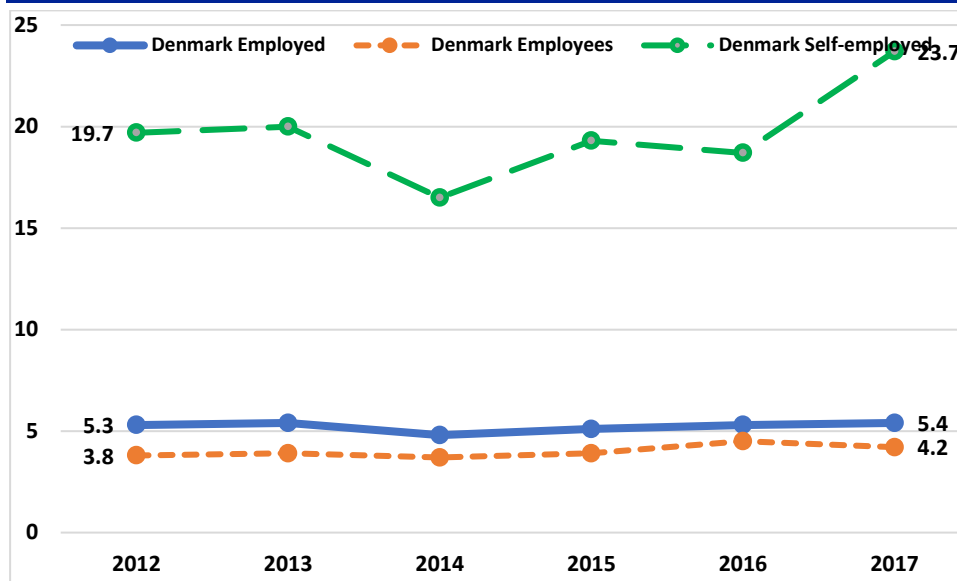
The Danish challenge with IWP is also related to being **marginally attached to the labour market**. In 2017, persons who had been on the labour market for less than a year had an IWP rate of 16.5%, compared to 4.5% for those who had been on the labour market for the whole year (Eurostat, 2018b). The IWP rate for the marginally attached is at the same level as the EU-28 (16.6%), but has increased since 2012, when it was 14.6%, indicating a growing challenge.

The IWP challenge is particularly **large and growing for part-time workers**. The IWP rate rose by 120% for persons working part time and fell by 15.9% for persons working full time (Eurostat, 2018f). In 2012, the IWP rate was 6.0% for part-time workers and 4.4% for full-time workers – a difference of 38.1%. In 2017, the IWP rates were 13.2% for part-time workers and 3.7% for full-time workers – a difference of 256.8%. From 2012 to 2017, the share of employees working part time increased slightly, by 0.5 pp to 25.3% (Eurostat, 2019a).

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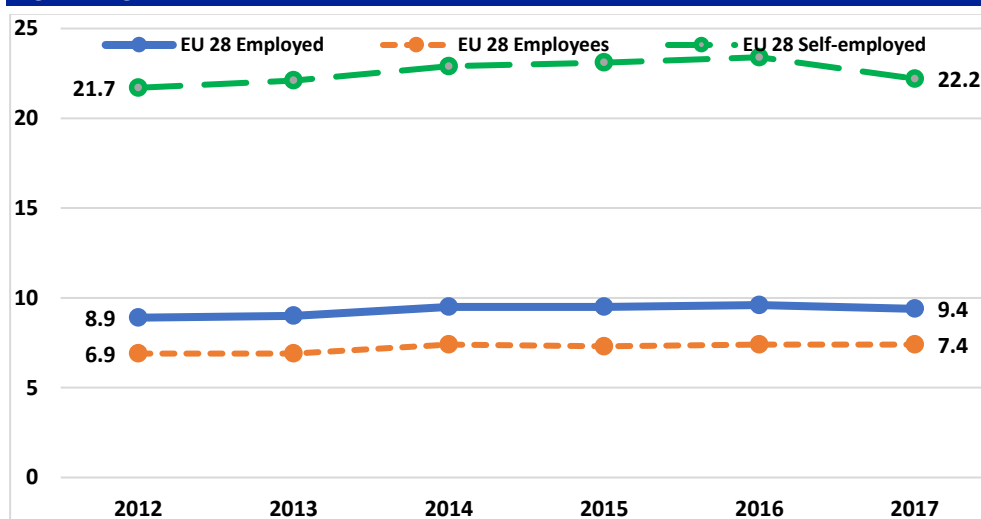
<sup>2</sup> Please note that the figures for Danish households with dependent children are of a low reliability according to Eurostat (2018e).

**Figure 1a. In-work poverty rates in Denmark, according to employment status, 2012-2017**



Source: Eurostat (2018a).

**Figure 1b. In-work poverty rates for EU-28 according to employment status, 2012-2017**



Source: Eurostat (2018a).

How is the risk of in-work poverty among individuals working in non-standard jobs? The already high rate of IWP among the self-employed increased by 20.3% – from 19.7% in 2012 to 23.7% in 2017; see Figure 1a (Eurostat, 2018g). Among employees, the increase was half that of the self-employed, rising as it did from 3.8% in 2012 to 4.2% in 2017. **IWP is higher among persons in non-standard jobs.** Although EU-28 IWP is also higher for persons in non-standard jobs, the relative increase in IWP has been higher for employees than for the self-employed (see Figure 1b).

Although in 2017 the IWP rate for persons on **temporary contracts was the third lowest, at 6.3%**, it had increased by 37.0% since 2012 (Eurostat, 2018h). In contrast, the IWP rate was only 2.5% for persons on permanent contracts, down 1.1 pp from 3.6% in 2012. At the same time, the share of temporary contracts among employees rose

markedly from 7.9% in 2012 to 11.9% in 2017 (Eurostat, 2019b). Thus, a larger share of a growing number of persons on temporary contracts are at risk of IWP.

There are large **geographical differences** in earned income, i.e. income for employees, the self-employed and persons who earn fees. In 2016, the national average of earned income was €42,577.60, with the lowest around €32,250 in the municipalities of Samsø and Læsø and the highest around €71,200 in Gentofte and Rudersdal (Danmarks Statistik, 2018a).

However, income poverty may be a **misleading and incomplete measure** of the standard of living of individuals working in new forms of employment. For the self-employed, the line between personal and business income may be blurred; the reliability of income data may be less good; and there may be a self-selection effect, where some people may become self-employed because their wealth and savings enable it (European Commission, 2018: 118).

For that reason, one can take a broader view of poverty by looking not only at relative income poverty, but also at the risk of social exclusion and material deprivation. These dimensions are captured by the share of people at risk of poverty or social exclusion (the AROPE indicator).<sup>3</sup> **Almost one in four of the Danish self-employed (24.5%) is at risk of poverty or social exclusion**, compared to only one in 17 of those employed (6.0%) (Eurostat, 2018g). The situation of the self-employed is deteriorating, as the level is 3.7 pp higher than in 2012. The increase among employees is 1 pp.

The adverse development for the self-employed is also reflected in **a threefold increase in the rate of material and social deprivation**.<sup>4</sup> The share of the self-employed who reported suffering from material or social deprivation increased from 1.5% in 2014 to 4.6% in 2017 – an increase of 206.7% (Eurostat, 2018i). The share of employees reporting this increased from 3.8% to 5.0%, an increase of 31.6%. Today, there are similar shares of self-employed and employees who suffer from material and social deprivation; but if current trends continue, **IWP will become a greater challenge for the self-employed than for employees**.

The problem of low wages leading to poverty is increasingly a challenge of **intra-community mobility**. From 2012 to 2017, the IWP rate for nationals from EU countries more than doubled – from 8.4% to 17.2% (Eurostat, 2018j). The **IWP rate is also high for third-country nationals**, but it only increased by 8.3% – from 18.0% in 2012 to 19.5% in 2017. The trend of higher IWP levels and growth rates among foreigners is put in perspective if one considers that only 4.3% of Danes were in IWP, down 6.5% from 2012. Importantly, the challenges faced by EU-28 nationals and third-country nationals in IWP are different: EU-28 nationals in IWP are probably subject to social dumping, i.e. wages below the standards set in the sector; third-country nationals combine various adverse characteristics, such as working in low-skilled jobs with low rates of pay and living in single-earner households.

When we compare developments in IWP for the various population groups, we can see how the adverse **economic situation following the economic crisis led to a polarisation**. It worsened the IWP situation for migrant workers, the self-employed and persons in non-standard, part-time and temporary jobs, but not for people in standard employment. To curb IWP, it is thus essential to push for more full-time work on regular wage and working conditions, also for EU-28 nationals.

<sup>3</sup> The AROPE indicator measures the number of persons who are either at risk of poverty, are severely materially deprived or are living in a household with a very low work intensity. Those at risk of poverty have an equivalised disposable income of below 60% of the national median. The severely materially deprived are those who cannot afford to pay for at least four out of nine items that are considered by most people to be desirable or necessary to lead an adequate life. In households with a very low work intensity, members of working age had worked less than 20% of their potential during the previous 12 months.

<sup>4</sup> The material and social deprivation rate measures the share of people in the total population lacking at least five out of 13 deprivation items relating to the household and person.

## 1 Analysis of the policies in place

In Denmark, there is **virtually no policy that explicitly addresses IWP**. Indeed, the Danish IWP situation must be understood in the context of its tax system, industrial relations, flexicurity and its Nordic-style welfare model.

### 1.1 Policies with a direct influence on IWP

It is within the tax system that we find the exception to the rule of no explicit policies addressing IWP: namely two **tax credits** that aim to raise the disposable income of low-income groups. The employment allowance (*beskæftigelsesfradrag*) is a tax credit of 9.5% of wages or profits with an annual ceiling on the allowance of €4,600 (in 2018). The job allowance (*jobfradrag*) is a tax credit of 2.5% of income above €25,130, with an annual ceiling on the allowance of €190. Single-adult households with dependent children get an extra employment allowance, which is a tax credit of 6.0% of income up to an annual ceiling on the allowance of €2,840. No studies have assessed their impact on IWP.

The employment allowance was increased and the job allowance introduced as part of the tax reform of 2012. The reform aimed to **make work pay** better for low-income groups, i.e. to enable low-income earners, some of them at risk of in-work poverty, more in wages, at the same time as widening the economic gap between being on social security and in work. The reform is still being phased in. In 2019, the employment allowance increases to 10.1% of wages or profits, with a ceiling of €4,990, and the job allowance rises to 3.75% of income above €25,680, with a ceiling of €280.

There are other elements of the Danish tax system that benefit persons in low-income jobs. The progressive personal income tax system has lower tax rates on low income than on high income. Certain tax allowances – like the personal income tax allowance (*personlige skattefradrag*) – benefit low-income groups relatively more than other income groups, but are not targeted at individuals in employment. Other tax allowances for persons in employment – for example, to cover expenses on food and accommodation while travelling for work, transportation, unemployment insurance, trade-union fees, alimony, gifts to charities – benefits both low-income and higher-income people in employment. Neither group of tax allowances addresses in-work poverty or the economic situation of low-income groups.

### 1.2 Policies which have (more) indirectly influenced IWP

Besides the two tax credits described above there is a wide range of **policies and practices that de facto work against IWP**. As mentioned, this concerns the practice of minimum wages set through collective agreements and the policies that constitute the Danish flexicurity model and Nordic welfare model.

The model of social bargaining has direct importance for the level and composition of in-work poverty. **Indeed, there is no statutory minimum wage in Denmark**. Minimum wage levels are instead the result of collective agreements by the social partners. And the social partners ensure that their members follow these agreements.

The **minimum wages set by collective agreements** are very high by international standards and reduce the level of IWP. In 2018, the hourly minimum wage in the industry sector was DKK 117.65, equivalent to a nominal monthly minimum wage of €2,560.40.<sup>5</sup> This level is far **higher than in any of the EU countries with statutory minimum wages**. The most recent study by the European Foundation for the Improvement of Living

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<sup>5</sup> The monthly minimum wage was calculated as one month of 4.33 weeks, times the number of weekly working hours at 37.5, times the hourly minimum wage at DKK 117.65, divided by the exchange rate in November 2018 of €1=DKK7.46112 (Nationalbanken, 2018).

and Working Conditions found that Luxembourg had the highest statutory monthly minimum wage, at €1,998.6; other high-range countries include the Netherlands (€1,578), Germany (€1,497.80) and the United Kingdom (€1,462.60) (Karel, 2018).

Because Danish minimum wages are settled at the sectoral level, the **minimum wage differs across sectors**. However, the collective agreement in industry set the standard for other sectors, so the differences are not as large as they could have been. In 2018, the monthly minimum wage was between €2,533.60 and €2,737.30 in retail; over €2,774.30 in the cleaning sector; and up to €2,995 in agriculture.

People at risk of in-work poverty may be in and out of work. When they are out of work, they may have access to passive and active labour market policies. Although not an official policy aimed at addressing in-work poverty, the Danish policy is to enable the labour market to adjust quickly to changing demands, by making it easy for employers to hire and fire labour, and to offer a safety net in the form of accessible and generous benefits to unemployed people, who are also offered help in the form of extensive active labour market policies to get back into work. Known as the Danish **flexicurity model**, this consists of a combination of **lax employment protection legislation, accessible and generous social security, and active labour market policies**. Lax employment protection ensures a high degree of labour market flexibility, with many shifts in the labour market meaning that few persons are caught in adverse situations like in-work poverty. Accessible and generous social security not only takes care of those dismissed, but also puts pressure on employers to offer a wage that is not lower than the alternative social security benefits. Finally, active labour market policies aim to qualify, re-qualify and match unemployed and employed people to a place in the labour market.

The first element of the flexicurity model is lax employment protection legislation, which enables employers to hire and fire employees relatively easy.

The second element of the flexicurity model is accessible and generous social security for those who become unemployed. Unemployment insurance and social assistance are the main schemes. The Danish unemployment insurance scheme is voluntary and encompasses both employees and the self-employed. In 2017, the **Unemployment Insurance Reform** improved the situation of people with marginal attachment to the labour market (i.e. those at risk of in-work poverty) by making hours the unit for eligibility and use of entitlements (Kvist, 2015a). In 2018, the Unemployment Insurance Reform for the self-employed and persons in non-standard jobs adopted the same principle (Kvist, 2017a). Since then, the unemployed have **better possibilities to extend their benefit period by taking on even marginal work**. Today, working one hour entitles the insured person to two hours of benefit when – and if – that person again becomes unemployed. This give persons on the margins of the labour market stronger incentives to take on even small jobs than the old system, where one day of work in a particular week would result in benefit payments being stopped for that whole week and where re-entitlement was dependent on the total sum of work amounting to 52 weeks within a three-year period (working one day less than that would mean the unemployed person would get no benefit extension at all). Working, for example, three hours on a Friday and three hours on the following Monday would, under the old system, result in two weeks without benefits, and the six hours worked would only amount to a benefit extension if it contributed – together with other work over a three-year period – to a total of at least one year of work. Under the new system, that same scenario would mean 12 but 12 hours would be put onto the person's benefit account.

Both employees and the self-employed may be entitled to **supplementary unemployment insurance** (*supplerende arbejdsløshedsdagpenge*) if they work reduced hours and fulfil the eligibility criteria for unemployment insurance. Supplementary unemployment insurance may be paid for **up to 30 weeks** within the preceding 104 weeks.

Persons who are not eligible for unemployment insurance may be entitled to **social assistance**. Social assistance is not used as a top-up benefit, as in some countries. The

share of claimants at risk of poverty is 54.7% for unemployment insurance and 70.3% for social assistance (Danmarks Statistik, 2018b). Both shares have increased markedly since 2012, when it was 35.5% for unemployment insurance claimants and 62.9% for social assistance claimants. For social assistance, it is largely the ceiling on total benefits (*kontanthjælpsloftet*) and a work demand (*beskæftigelseskrav*), both introduced in 2016, that have caused the recent spike in the numbers of those at risk of poverty.

The third element of the flexicurity model is an **extensive active labour market policy system**. With expenditure on active policies amounting to 2.07% of GDP, Denmark spends more than any other country (Sweden is second, with 1.17%) (OECD, 2018). Many of the active labour market policies aim to increase the qualifications of the unemployed, thus enhancing their chances of getting a job, preferably a good-quality job, that does not lead to IWP. Other active labour market policies work through subsidies to get the unemployed into work. In 2017, there were 73,183 individuals in supported employment: jobs with wage subsidies (6,092), flex jobs (62,940) and sheltered jobs (4,151) (Danmarks Statistik, 2018c). For the sake of comparison, in 2017 the labour force was 2,906,000 persons (Danmarks Statistik, 2018d).

Because IWP is mainly an issue of marginal attachment to the labour market in Denmark, policies and developments that affect labour supply and the number of hours worked are central to developments in IWP. With its **Nordic-type welfare model**, Denmark has a wide range of such policies – most notably social, health and family services that are accessible to everybody, investing in people and enabling families to achieve a better work-life balance, all irrespective of the recipient's income in work.

Comprehensive, **universal and mostly tax-financed benefits in kind** in social and health services make it possible to better **reconcile work and family life** (Kvist, 2017b). **Childcare**, for example, is subsidised for all and the user fee is graduated according to household income; there is a higher income ceiling for single parents. **A single parent with an annual wage equal to the minimum wage in industry would not have to pay anything for childcare**. The coverage of formal childcare is markedly higher in Denmark than in the EU-28 countries. In particular, there are more children spending over 30 hours per week in childcare. There are four times as many children aged below three years in childcare in Denmark than in the EU-28, and almost twice as many children aged between three years and the minimum school age (Eurostat, 2018k). In 2016, 84.9% of children aged three to school age were in formal childcare for 30 hours or more.

The in-work poor have full access to public healthcare, but less access to supplementary healthcare. The comprehensive, tax-financed **public healthcare system has universal coverage**. Coverage does not depend on labour market status. Most healthcare services are provided free of charge, although there are user payments for medicine and certain specialist treatments (which are reduced for low-income households).

**Supplementary private healthcare insurance**, introduced in 2001, covered 36.5% of the population in 2014 (see Kvist, 2018a). It covers those people whose employers have taken out insurance for their employees. To get favourable tax treatment, employers must cover all employees in their company or institution. Hence, in-work poor employees are covered if other employees in the firm are covered. However, the scheme does not cover the unemployed, the self-employed or persons in non-standard jobs, unless they have taken out insurance individually. Private healthcare insurance gives those insured expanded and faster access to healthcare. In 2015, the level of unmet need in healthcare in general was 1.1%, compared to 3.2% for the EU-28 (Kvist, 2018a).

The main eligibility condition for sickness benefit, which is financed from general taxation, is that one resides in Denmark and pays income tax. Employees at risk of in-work poverty are **generally eligible for sickness benefit** if they should fall ill. Their income from work does not play a role in their eligibility. However, the extent of their labour market attachment does matter. Sickness benefits are paid by the employer if the individual has been employed for at least eight weeks and has worked for at least 74 hours. Sickness

benefits are paid by the municipality if the individual has been attached to the labour market for at least 13 weeks and has worked at least 120 hours. In other words, employees at risk of in-work poverty must, on average, have a **job intensity of 25% over a 2-3 month period to qualify** for sickness benefits.

**The self-employed can claim sickness benefits** from the municipality if the person is unable to work because of sickness, illness or an injury (Kvist, 2017b). Qualification requirements are somewhat stricter than for workers, and unless the self-employed person has taken out supplementary insurance, there is a **two-week waiting period**. To be eligible for sickness benefit, the person must have been self-employed, with a minimum of 18.5 weekly working hours (equal to half a normal working week, according to collective agreement) for at least six months within the previous 12 months, including the month just prior to the sickness. If the person has worked for less than six months, other periods of work as an employee may be included. In any case, it is time worked, and not income from work, that counts toward eligibility. Like workers, the self-employed can also access partial sickness benefit and rehabilitation services.

Most benefits in kind are granted on the basis of need; they are financed by general taxation and income-graduated user fees (if any). However, these social and health services **create opportunities and incentives to work**, also full time.

Persons at risk of in-work poverty may have few financial concerns about how to finance the **care of their elderly family relatives** (Kvist, 2016a). Denmark probably has the most extensive long-term care system for the elderly in the world. The system is organised and financed at the local level of the municipalities. Long-term care may be provided in the form of residence in institutional care facilities or special housing (typically with nurses attached), or as home help. Indeed, the system is to a large extent based on help provided in the home of the elderly, in terms of personal and practical home help. The financing is primarily out of general taxation and not through user fees or insurance contributions. User fees are set at a level that can be paid out of the general national old age pension. **Relatives are not obliged to pay** any user fees.

Seen together, the existence of comprehensive, universal and tax-financed in-kind benefits in the family, education, social, labour market and healthcare sectors means that persons at risk of in-work poverty do not have to pay for such services for themselves or their relatives. Therefore, the service side of the country's welfare model means that **being income poor in Denmark does not translate directly into deprivation**. In a longer-term perspective, many of the services – in the health, education, family, labour market and social sectors – also constitute investments in people that aim to prevent them from being caught in adverse situations, such as in in-work poverty jobs.

However, in the short-term perspective it is the extent of labour market attachment, rather than wages, that determines the risk of IWP for employees. Reconciliation policies are important for the increasing labour supply. As shown in the example earlier, there are national rules concerning the reduction in childcare fees, but the 98 municipalities are free to decide on the scope and quality of childcare, which leads to some local differences in the costs of childcare and in childcare fees. The same goes for long-term care. Hence, the support that people in in-work poverty part-time positions get to increase their labour supply differs between municipalities and depends also on the family situation of the individual.

Perhaps the biggest challenge regarding social protection for individuals at risk of in-work poverty concerns the consequences for entitlements that are based on labour market attachment and income. In particular, the Danish old age pension system has schemes where it is essential to have been in the labour market for long and stable periods, preferably working full time. This improves the chances that the funded pension schemes will pay out adequate benefits in old age. Vice versa, **individuals caught in in-work poverty will face the economic repercussions of this later in their old age**, i.e. their pension entitlements will be smaller than if they had not been caught in in-work poverty.



Denmark does not have in-work benefits, i.e. social policies that provide income supplement to needy families on condition that they work.

How effective are the policies in place to reduce IWP? There are no effect studies of particular policy consequences for the level or composition of IWP. Overall, the low rates of IWP for most population groups indicate that the model of collective bargaining and the general policy packages to a large extent have been successful. Youth has a markedly higher IWP than other age groups, but this may not be a severe problem if the individuals in IWP move into better positions in the labour market when they get older.

## 2 Policy debates, proposals and reforms on in-work poverty and recommendations

In Denmark there is debate neither on in-work poverty nor on a living wage, as there is in many other European countries (see Hurley et al., 2018). Instead IWP is a topic that is **part of more general debates** on social dumping, precarious jobs, low wages, inequality and poverty. The groups that are mentioned frequently include mobile EU workers, migrants and persons in non-standard jobs.

To illustrate the nature of the Danish debate, one can examine the discussion in the Disruption Council that the government created to investigate the biggest challenges to Danish society. The Council was chaired by the prime minister and consisted of seven ministers, six presidents from the social partners, numerous chief executive officers and a few people selected in their personal capacity. When they discussed labour market issues, the focus was on the flexicurity model, new employment forms (in particular “platform work”), attracting foreign workers and avoiding social dumping. There was no discussion of in-work poverty.

However, there is **one reform being phased in that addresses in-work poverty**, namely the tax reform of 2012. As part of that reform, the employment and the job allowances are gradually being increased over the next three years. The **employment allowance** will increase from 9.5% of the wages of employees (or the profit of the self-employed) in 2018 to 10.6% in 2021. At the same time, the maximum annual allowance will increase: in 2019, it is €4,985, up from €4,600 in 2018. The **job allowance** will increase from 2.5% of annual income over €25,100 (with a ceiling of €188 in 2018) to 3.75% of annual income above €25,680 (with a ceiling of €281). From 2020, the job allowance will be 4.5% of income. In relative terms, the two larger tax allowances benefit low-income workers and the self-employed more than other workers, and can thus be seen as remedying the risk of in-work poverty. At the same time, the larger tax allowances for low-income workers increase the economic incentive of getting into work, rather than remaining on social security.

The **collective agreements of 2017** run until March 2020 and cover wages, working conditions and other social issues. Because the wage increases were higher than in the two previous rounds of collective agreements (in 2012 and 2014), members of the unions voted “yes” to the final settlement proposal. Working parents’ caring time for sick children was increased from one to two days per year. The ceiling on full wage compensation on parental leave under 13 weeks was removed. Education and training options also improved markedly.

In addition, the government and the social partners concluded an agreement on 29 October 2017 on adult and continuing training (*Voksen- og efteruddannelserne*) to make it easier and more lucrative to take training while in work.

For persons on the margins of the labour market, there have been several reforms – most notably, of social assistance, disability pensions and flex jobs, and sickness benefits. These reforms have made measures more active, more directed towards companies, more centred on the individual and better coordinated in resource programmes offered by cross-sectoral and disciplinary teams (see Kvist, 2015b, 2016b; Finansministeriet, 2018).

Arguably, there have also been debates and reforms on special groups that are affected by IWP, namely domestic workers, refugees and, most recently, EU-28 students.

Domestic workers under the au pair scheme form a special group of IWP. The level of **pay of au pairs is relatively low**, as the scheme historically was part of cultural exchanges, and not conceived as mobility of work. Hence, there is no minimum wage for au pairs. Instead they receive **pocket money**, with a minimum standard set nationally in parliament. After public scandals over the economic abuse of au pairs, their wage and working conditions were improved in 2015. Today, an au pair receives a monthly minimum amount of €707 (2018).

In 2016, negotiations between the government, municipalities and the social partners led to a two-year programme, the **Integration Education Benefit** (*integrationsuddannelsesydelser*, IGU), whereby newly arrived refugees and persons reunited with their families are allocated to municipalities in which their qualifications match labour demand, and where they will work at the same time as learning Danish, job-related skills and how to live in Denmark (see Kvist, 2016c, 2018b). Exceptionally, the trade unions agreed to support a scheme where participants **work for a wage below the minimum income** levels set by collective agreement. Participants are thus likely to be IWP during their initial start on the Danish labour market. The aim of the scheme is to integrate those third-country nationals whose basis for residence in Denmark is a claim for asylum more rapidly into the labour market. At the moment, the wage share of their income increases markedly with the length of stay in the country; but third-country nationals whose basis for residence is work (rather than asylum) have a considerably higher wage and a more stable income on average (Danmarks Statistik, 2018d).

Most recently, there has been a discussion of how social benefits and educational grants can be used to subsidise social dumping, i.e. **EU-28 nationals working below the minimum wages** set by collective agreements. Such practice exploits the EU-28 nationals, challenges the wage levels set for Danish jobs and jeopardises the Danish system of industrial relations. A study commissioned by the Danish Confederation of Trade Unions (LO) found that at least a third of European students working are paid less than the minimum wage and that a quarter are paid considerably less (Scheuer, 2018). In addition, a third are employed on zero-hour contracts, meaning that those students or workers have no guarantee of a certain amount of work. From 2012, the number of foreign students receiving a study grant rose from 400 to 9,700 in 2016. The low wages are accepted by the EU-28 nationals **because they receive a study grant in addition to their wage**. However, if they study too little, or earn too much, they will be met with a demand to pay back the grant. In November 2017, the LO suggested preventing those employers who have repeatedly taken on students who have been required to pay back their study grants from hiring more European students. Instead, the government and the Danish People's Party decided in 2018 to close down a number of educational programmes that have large shares of foreign students, disregarding the employment track record of such programmes and the widespread criticism, in particular, from student and employer organisations.

There have **not been any evaluations or other studies of IWP** in Denmark. However, if we look at the policies relevant to the IWP situation of various population groups, then we can perhaps identify some packages that are more promising than others. In particular, if we compare the situation of various population groups across countries, we may find indications of what Denmark does well and what it does less well.

Denmark does not deal well with youth: the rate of IWP among young people is high. However, this may not be so concerning as it at first sounds, for two reasons. First, several studies of the development of income inequalities have found that one of the reasons for the increasing inequalities is that the share of young people taking education is increasing. When a larger share of youth takes up education, that results in a postponement of occupational income, though lifetime occupational income will be greater. Second, many Danish students work part time at minimum income levels set by collective agreements while studying. Such young people appear to be IWP, although they are bolstering their consumption by supplementing their study grant with income from (part-time) work.

Denmark probably has the best case of “**good practice**” in the field of child families. Danish single parents have half the level of IWP of the EU-28 as a whole, and where there are two parents the figure is one-third. This is the result of a policy package that consists of extensive full-time affordable childcare, combined with family and tax allowances that are extra generous for single parents. In the longer-term perspective, fewer children growing up in poverty bodes well for their later life chances and thus future rates of IWP. It is generally agreed that being in the labour market protects individuals and families from poverty.

With regard to IWP, Denmark does comparatively better than the EU-28 for individuals with less than primary and lower secondary education; but their situation is deteriorating fast and is thus not an example to follow.

Similarly, the polarisation that sees larger shares of workers from foreign countries, especially the EU-28, in IWP and smaller shares of workers from Denmark does not lend itself as an example to follow.

The situation of the self-employed, part-time workers and persons on temporary contracts is not much better than the EU average.

Perhaps the **biggest lesson** to be taken away from the Danish case is that **it is possible to have relatively high levels of in-work poverty without it resulting in similar material and social deprivation**. Although one self-employed person in four is IWP, there are “only” 4.6% who report material and social deprivation. The main reason for this is most likely Denmark’s flexicurity model and its Nordic welfare model. They provide support to get back into the labour market through active labour market policies and to reconcile family and work life through family, education and social policies.

**No reforms or policies have been announced** that will curb the level of IWP. However, there is an election due before 19 June 2019. In that connection, political parties are likely to announce their stances on social dumping, inequality and poverty, and a number of other issues that link to IWP.

There is **no discussion on introducing a minimum wage** in Denmark. However, that may change if part of the debate leading up to the European Parliament election on 26 May 2019 is on the minimum income suggested in the European Pillar of Social Rights.

One **recommendation** coming out of this study is to undertake **panel studies** of the income situation of persons in employment, in order to capture dynamic effects and investigate how individuals affected by IWP at one point in time do afterwards.

Another recommendation is to **adopt the 2017 proposal of the Danish Confederation of Trade Unions**, described earlier, to exclude employers who have a record of abuse (primarily of Eastern European students) from hiring more students.

### 3 Assessing data and indicators

Denmark has **no official poverty line**. There is broad consensus that the EU at-risk-of-poverty (AROP) indicator – and especially having the poverty line set at 60% of median income – leads to a flawed picture of poverty and inequality. The indicator does not take into account the comprehensive non-monetary benefits described in section 2, which are universal and tax financed. Hence, a person at risk of in-work income poverty in Denmark may be as well off as someone who is not at risk, but who lives in a country where it is necessary to pay for education, family, social or health services.

For these reasons, there is a tradition of reporting risk of poverty (now called “low income” by Statistics Denmark (Danmarks Statistik)) using a relative poverty line set at 50% of median income, rather than the 60% that is common in the EU. Pragmatically, Statistics Denmark’s **income statistics use both the 50% and the 60% poverty lines**. In 2017, the share of employees who were suffering in-work poverty was 2.1% when measured by

the 50% poverty line and 4.7% when measured by the 60% line (Danmarks Statistik, 2018b). The same information for the self-employed was, respectively, 9.1% and 12.6%.

Data are based on annual income from the **tax registers**, supplemented by social security payment information from municipalities, unemployment insurance funds and internal registers at Statistics Denmark. The validity and reliability of data are very high, as the main source of information is tax information. Informal income is not covered. The data are sampled in August of the following year. Changes made to tax declarations after this point in time are not included, which affects a minority of the self-employed whose tax returns have not been finalised. Income statistics is reported in November for the preceding year and is available on-line at the Statistical Bank (*Statistikbanken*).

Besides the possibility of operationalising low income, or poverty, as income below 50% or 60% of the median line, the information is provided both in absolute numbers and as percentage shares of the given population. Finally, the statistics are reported according to **socio-economic status**, which covers the following categories: All; Self-employed; Employees; Employees with management responsibility; Employees at the highest level; Employees at the middle level; Employees at the basic level; Other employees; Employees with no specification; Unemployed; Temporarily out of the labour force; Students; Disability pensioners; Old age pensioners; Voluntary early retirement pay (*efterløn*); Social assistance claimants; Others with no occupation. The time period covered is 2000-2017. The statistics on in-work poverty is in these ways covered as part of the general income statistics on low-income families.

Indeed, **studies of in-work poverty are scarce** in Denmark. There are no regular statistics or reports on in-work poverty, just as there has not yet been any defining national study on this specific issue. Instead, analysis of in-work poverty is integrated into more general studies on inequalities, poverty or the like.

In the annual publication "Redistribution and incentives", the Ministry for Economic Affairs and the Interior (Økonomi & Indenrigsministeriet, 2018) analyses the development in income inequality. The analysis is based on the Danish Law Model, i.e. a large sample of the Danish population. The study finds that increasing wage inequalities are partly the result of demographic changes in the labour market and a growing share of youth taking longer in education.

For Denmark, the EU-SILC data on income are based on register data, and not on survey data (as is the case in many other countries). If more EU countries were to switch (whenever possible) to register data, that would improve the validity and reliability of income data. Income data are complex and sensitive and that makes self-reported information less valid and reliable as compared to register data.

From the Danish perspective, it would be useful if Eurostat also published its IWP statistics for a poverty line set at 50% of median income. More of those identified by the 50% poverty line are likely to be in real IWP than those caught by the 60% line.

From the Danish perspective, the current regular Eurostat figures based on EU-SILC provide a better picture of IWP than can be drawn using regular figures from Statistics Denmark. However, to address the big question of whether people are stuck in in-work poverty jobs, we need to have data over time – panel data. Such data are published regularly neither in Denmark nor in the EU. Having panel data would allow us to see if IWP jobs are stepping stones into or out of the labour market, and to determine whether some population groups are caught in IWP. Such information would be valuable for policy advice.

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